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DAN E. ARNETT
CHIEF OF STAFF

178879

April 11, 2006

Charles L.A. Terreni
Chief Clerk/Administrator
Public Service Commission of South Carolina
101 Executive Center Drive
Columbia, SC 29210

RE: Docket No. 2000-366-A
Application of Chem-Nuclear Systems, LLC for Adjustment in the Levels
of Allowable Costs and for Identification of Allowable Costs

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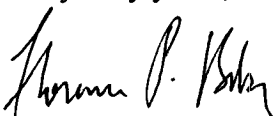
Dear Mr. Terreni:

Enclosed for filing with the Public Service Commission of South Carolina (Commission) is information concerning the examination by the Office of Regulatory Staff (ORS) of the application of Chem-Nuclear Systems, LLC in the above-referenced docket. The information enclosed relates to Chem-Nuclear's present application which is scheduled for hearing on April 12, 2005.

As you are aware, ORS and Chem-Nuclear have reached a Settlement Agreement in the present case. This Settlement Agreement was filed with the Commission on March 28, 2005. As requested, ORS is providing the enclosed information relating to ORS' examination of the application and the books and records of Chem-Nuclear in order to assist the Commission in evaluating the pending application and Settlement Agreement.

Should you have any questions concerning the enclosed information, please do not hesitate to contact me.

Very truly yours,


Florence P. Belser

FPB

Enclosure

cc: Robert T Bockman, Esquire
David K. Avant, Esquire
Henry McMaster, Esquire
Kevin A. Hall, Esquire
Robert E. Merritt, Esquire
Frank R. Ellerbe, III, Esquire
William F. Austin, Esquire
Samuel L. Finklea, Esquire
Mr. Henry Porter
Mr. Bill Newberry
Mr. Regan E. Voit
Benjamin A. Johnson, Esquire

BEFORE
THE PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA
DOCKET NO. 2000-366-A

IN RE: Application for CHEM-NUCLEAR)
SYSTEMS, LLC, a Division of)
Duratek, Inc., for Adjustment in)
the Levels of Allowable Costs and)
for Identification of Allowable)
Costs (for Fiscal Year 2005-2006))
_____)

CERTIFICATE OF SERVICE

This is to certify that I, Susan Hauptmann, an employee with the Office of Regulatory Staff, have this date served one (1) copy of the **South Carolina Office of Regulatory Staff Examination of the Application of Chem Nuclear Systems, LLC's Application for Adjustment in the Levels of Allowable Costs for Fiscal Year Ended June 30, 2005 and for Identification of Allowable Costs for the Fiscal Year Ending June 30, 2006** in the above-referenced matter to the person(s) named below by causing said copy to be deposited in the United States Postal Service, first class postage prepaid and affixed thereto, and addressed as shown below:

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Susan Hauptmann

April 11, 2006
Columbia, South Carolina

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DAN E. ARNETT
CHIEF OF STAFF

**SOUTH CAROLINA OFFICE OF REGULATORY STAFF
EXAMINATION OF THE APPLICATION OF
CHEM NUCLEAR SYSTEMS, LLC'S APPLICATION FOR ADJUSTMENT IN THE LEVELS OF
ALLOWABLE COSTS FOR THE FISCAL YEAR ENDED JUNE 30, 2005 AND FOR IDENTIFICATION
OF ALLOWABLE COSTS FOR THE FISCAL YEAR ENDING JUNE 30, 2006**

On September 27, 2005, Chem Nuclear Systems, LLC filed an application for Adjustment in the Levels of Allowable Costs for the fiscal year ended June 30, 2005 and for Identification of Allowable Costs for fiscal year ending June 30, 2006. As this application was filed in accordance with South Carolina Public Service Commission Docket No. 2000-366-A, the South Carolina Office of Regulatory Staff scheduled and subsequently completed an examination of the application and the underlying financial records of Chem Nuclear Systems, LLC.

As a result of our procedures, we have prepared a summary of the application, our recommended changes thereto, and a comparison of the resulting recommended allowable reimbursement to the amounts authorized by the South Carolina Public Service Commission in its Order No. 2005-338(A) dated June 27, 2005. Our summary of this analysis is attached herewith as Exhibits A and A-1. As shown in this analysis, we recommend that Chem Nuclear Systems, LLC be allowed to retain, as recovery of their expenditures in operating the Barnwell Low Level Radioactive Waste storage facility, \$7,785,664 in Fixed costs, \$2,261,661 in Variable costs and \$803,696 in Irregular costs for the year ended June 30, 2005.

In conjunction with the procedures described in the preceding paragraph, we also examined transactions recorded by Chem Nuclear Systems, LLC for the period beginning July 1, 2005 and extending through December 31, 2005. The costs examined included those categorized as Fixed and as Irregular. We also calculated recommended Variable cost rates for the fiscal year ending June 30, 2006. Our findings from this examination are attached herewith, as Exhibit AA.

Based upon our comparison of Fixed and Irregular costs per the application to those experienced through December 31, 2005, we do not object to those amounts requested in the application being granted to the Company.

The Variable Labor and Non labor rate recommendations in Exhibit AA are based upon actual rates experienced by the Company during the fiscal year ended June 30, 2005 with a three and one half percent (3.5%) increment. The Variable Material Costs (Vault Costs) rates are based upon actual rates experienced during the fiscal year ended June 30, 2005 with a fourteen percent (14%) increment necessitated by supplier increases. As a result of this examination, we have prepared a summary of Fixed and Irregular cost during the first six months of Chem Nuclear Systems, LLC's fiscal year ending June 30, 2006.



Jay R. Jashinsky
Director of Auditing

March 20, 2006

Chem Nuclear Systems, LLC
Operating Experience and Reimbursable Costs
For the Twelve Months Ended June 30, 2005

Per Application	ORS's Proposed Adjustments to the Company's Filing	Adj. #	ORS's Proposed Allowed Reimbursable Costs	Commission's Order- Information Only	Actual Costs Over (Under) Commission Allowed
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Fixed Costs

Labor & Fringe	\$ 2,898,573		\$ 2,898,573	\$ 2,854,670	\$ 43,903
Non-labor Costs	1,282,515		1,282,515	1,193,327	89,188
Machinery & Equipment					
Rent/Lease	373,092		373,092	238,475	134,617
Depreciation	97,211		97,211	110,000	(12,789)
Other Insurance	798,300		798,300	962,120	(163,820)
Barnwell SG&A Allowable	1,187,072		1,187,072	923,790	263,282
Amortization	625,000		625,000	625,000	-
Legal Expenses	422,043		422,043	250,000	172,043
Other Labor	101,858		101,858	91,641	10,217
Total Fixed Costs	\$ 7,785,664	\$ -	\$ 7,785,664	\$ 7,249,023	\$ 536,641

Variable Costs

Vaults	\$ 1,480,784	\$ 9,126	1	\$ 1,489,910	\$ 1,419,003	\$ 70,907
Labor and Non-Labor Costs	771,771			771,771	741,106	30,665
Total Variable Expenses	\$ 2,252,555	\$ 9,126		\$ 2,261,681	\$ 2,160,109	\$ 101,572

Chem Nuclear Systems, LLC
Operating Experience and Reimbursable Costs
For the Twelve Months Ended June 30, 2005

Irregular Costs

**Other Large Components (4
shipments of CY Piping &
Valves; 1 shipment Navy
Refueling Equipment):**

Labor	\$	12,552	\$		\$	12,552	\$	70,000	\$	(57,448)
Non-Labor		<u>107,318</u>		<u>(296)</u>		<u>107,022</u>				<u>107,022</u>
Total		<u>119,870</u>		<u>(296)</u>		<u>119,574</u>		<u>70,000</u>		<u>49,574</u>

**Other (Records Disposition,
Site Assessments):**

Labor		15				15				15
Non-Labor		<u>3,440</u>				<u>3,440</u>				<u>3,440</u>
Total		<u>3,455</u>		<u>-</u>		<u>3,455</u>		<u>-</u>		<u>3,455</u>

**Various Trenches (Design,
Construct, Backfill Including
Free Flowing Sand):**

Labor		52,160				52,160		160,000		(107,840)
Non-Labor		<u>263,044</u>				<u>263,044</u>				<u>263,044</u>
Total		<u>315,204</u>		<u>-</u>		<u>315,204</u>		<u>160,000</u>		<u>155,204</u>

Decontamination & Corrective Actions:

Labor		3,473				3,473				3,473
Non-Labor		<u>11,293</u>				<u>11,293</u>				<u>11,293</u>
Total		<u>14,766</u>		<u>-</u>		<u>14,766</u>		<u>-</u>		<u>14,766</u>

Engineering Drawings

Labor		60,260				60,260				60,260
Non-Labor		<u>23,666</u>				<u>23,666</u>				<u>23,666</u>
Total		<u>83,926</u>		<u>-</u>		<u>83,926</u>		<u>-</u>		<u>83,926</u>

Chem Nuclear Systems, LLC
Operating Experience and Reimbursable Costs
For the Twelve Months Ended June 30, 2005

**Miscellaneous Irregular
Projects (Puncture stand
relocation):**

Labor	\$	8,206	\$		\$	8,206	\$		\$	8,206
Non-Labor		<u>(41)</u>		<u></u>		<u>(41)</u>		<u></u>		<u>(41)</u>
Total		<u>8,165</u>		<u>-</u>		<u>8,165</u>		<u>-</u>		<u>8,165</u>
License Renewal and Appeal Costs:										
Labor		163,422				163,422				163,422
Non-Labor		<u>86,956</u>		<u></u>		<u>86,956</u>		<u></u>		<u>86,956</u>
Total		<u>250,378</u>		<u>-</u>		<u>250,378</u>		<u>-</u>		<u>250,378</u>
PSC and Budget & Control Board Support										
Labor		<u>8,228</u>		<u></u>		<u>8,228</u>		<u></u>		<u>8,228</u>
Total		<u>8,228</u>		<u>-</u>		<u>8,228</u>		<u>-</u>		<u>8,228</u>
Total Irregular Costs	\$	<u>803,992</u>	\$	<u>(296)</u>	\$	<u>803,696</u>	\$	<u>230,000</u>	\$	<u>573,696</u>

Chem Nuclear Systems, LLC
ORS's Proforma and Correcting Adjustments
For the Twelve Months Ended June 30, 2005

DescriptionAdjustment Amount

Adjustment #1

ORS proposes that reimbursable vault costs be adjusted to reflect the actual balance recorded in Chem Nuclear's general ledger. Per the general ledger, total vault cost totaled \$1,489,910. Per Chem Nuclear's application, that total cost was \$1,480,784. Therefore vault cost should be increased by \$9,126.

Per ORS Calculation	\$	9,126
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Adjustment #2

Through our examination and testing of costs ioncluded in the Irregular category, we determined that non-labor costs associated with large component disposal should be \$107,022. Per its application, Chem Nuclear was seeking reimbursement for \$107,318. Accordingly, total Irregular cost associated with large component disposal should be reduced by \$296.

Total Adjustments Per ORS	\$	<div style="border-top: 1px solid black; border-bottom: 3px double black; display: inline-block; padding: 2px 10px;">8,830</div>
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Chem Nuclear Systems, LLC
Proposed Fixed, Irregular and Variable Costs
Fiscal Year Ending June 30, 2006 To Date

	Application	Actual Thru 12/31/2005	Difference
FIXED COSTS			
Fixed Costs to which 29% operating margin is added:			
Labor and Fringe	\$ 3,000,000	\$ 1,411,188	\$ 1,588,812
Non Labor	1,308,109	614,504	693,605
Corporate Allocations (Management Fees/G&A)	1,203,257	679,885	523,372
Depreciation	250,000	105,798	144,202
Insurance	830,232	387,210	443,022
Equipment Leases and Support	386,150	258,605	127,545
Total Margin Costs	<u>6,977,748</u>	<u>3,457,190</u>	<u>3,520,558</u>
Fixed Costs to which 29% operating margin is not added:			
Intangible Asset Amortization	625,000	312,500	312,500
Employee Retention Compensation	105,423	50,990	54,433
Legal Support (license appeal)	50,000	9,696	40,304
Total Non-margin Costs	<u>780,423</u>	<u>373,186</u>	<u>407,237</u>
Total Fixed Costs	<u>\$ 7,758,171</u>	<u>\$ 3,830,376</u>	<u>\$ 3,927,795</u>

IRREGULAR COSTS

Trench Construction	\$ 60,000	\$ 128,771	\$ (68,771)
License Appeal	20,000	5,951	14,049
Corrective Actions	14,766	19,277	(4,511)
Site Engineering Drawings	10,000	22,808	(12,808)
Irregular Components	40,000	291	39,709
Miscellaneous	15,000	28,365	(13,365)
Total Irregular Costs	<u>\$ 159,766</u>	<u>\$ 205,463</u>	<u>\$ (45,697)</u>

Chem Nuclear Systems, LLC
Proposed Fixed, Irregular and Variable Costs
Fiscal Year Ending June 30, 2006 To Date

VARIABLE RATES

	<u>Costs</u>	<u>Variable Factor</u>
Class A Waste	\$ <u>37.78</u>	Per Cubic Foot
Class B Waste	\$ <u>38.08</u>	Per Cubic Foot
Class C Waste	\$ <u>38.00</u>	Per Cubic Foot
Slit Trench Waste	\$ <u>124.23</u>	Per Cubic Foot Per Non Slit Trench Shipment
A, B & C Waste	\$ <u>1,225.69</u>	
Slit Trench Shipment	\$ <u>8,666.66</u>	Per Slit Trench Shipment
Customer Assistance	\$ <u>293.80</u>	Per Shipment
Vault Purchase, Inspection & Placement	\$ <u>89.31</u>	Per Vault
Trench Records	\$ <u>68.32</u>	Per Container